

2009 **Business Tax Guide**

Washington State Department of Revenue



Visit our web site at dor.wa.gov



When you E-file...

...everything just falls into place.

When you choose E-file and an electronic payment, you set into motion a simple, secure process that promises error checking and timely delivery. No more worry about mistakes or whether the check arrived in time.



Washington State Department of Revenue

<http://dor.wa.gov>

Need help? Call us weekdays 8 a.m. to 5 p.m. at 1-877-345-3353.



A 2.5% processing fee will apply.

Table of Contents

CHAPTER 1: Tax Basics	1-4
Business & Occupation Tax.....	1
Public Utilities	2
Retail Sales Tax	2
Other Taxes	3
Use Tax	4
Resale Certificates.....	4
CHAPTER 2: Ways to File Your Tax Return	5
Electronic Filing (E-file)	5
Paper Returns.....	5
Reporting No Business Activity	5
CHAPTER 3: Tax Reporting Information	6-7
Reporting Frequency	6
Due Dates	6
Accounting Methods	6
Active Non-reporting Information	6
Correcting a Previously-filed Return.....	7
CHAPTER 4: Account Changes.....	8
Reporting Name Changes and Other Changes.....	8
Changing From a Sole Proprietorship to a Corporation	8
CHAPTER 5: Recordkeeping	8-9
CHAPTER 6: Audit Information	9
The Audit Process	9
CHAPTER 7: Rights and Responsibilities.....	10-11
Rights.....	10-11
Responsibilities.....	11
CHAPTER 8: Service Directory	12-13
Web Site	12
Telephone and One-on-one Assistance	12
Tax Consultation Visits.....	12
Binding Letter Ruling	12
United States Internal Revenue Service.....	12
Online Business Resources	13

Online resource provides tools, information to taxpayers

The Department of Revenue is committed to providing taxpayers with the information they need to comply with state laws. The result of that commitment is a comprehensive, up-to-date web site that features a variety of tools and current information regarding tax laws and changes.

This easy-to-use resource is located on the web site dor.wa.gov, and features:

- **E-file:** An online tax filing system that offers taxpayers the ability to file early, and delay payment until the due date, among other helpful features.
- **Tax rate lookup tool:** This allows taxpayers to look up tax rates for any location within the state of Washington. You'll find tax rates for Sales & Use, Motor Vehicle Sales/Leases/Rentals, and Lodging.
- **Business information lookup tool:** Provides public information for businesses registered in Washington State.
- **Unclaimed Property search tool:** Links to Revenue's Unclaimed Property site where you can search for property that has been turned over to the state.
- **BillPay:** Pay a balance due, an unpaid tax return, or a tax assessment online through BillPay. You can pay by credit card or electronic funds transfer.
- **Manage your account:** Make changes to your account online. You can change your mailing address and contact information, update or close a business location, or close your account online.
- **Amend your tax return:** Did you make a mistake on your tax return? If so, you can submit your amended return online.
- **Workshops:** Go to our web site to register for an in-person workshop, or watch an online workshop or tutorial.
- **Industry specific guides:** To help you better understand the tax obligations for specific industries, we've created online guides. Some of the industries covered include construction, auto dealers, agriculture, restaurants and taverns, lodging, and more!
- **Also available:** The web site provides law changes and current rulings; e-mail list serves; secure messaging; taxpayer advocate and much more.

Available anytime, anywhere you have internet access; dor.wa.gov is the first place to go for information concerning taxes in Washington State.



CHAPTER 1

Tax Basics

Washington State does not have a corporate, unitary, or personal income tax. However, the majority of Washington businesses are subject to one or more of these major taxes:

- Business and Occupation (B&O)
- Retail Sales
- Use
- Public Utilities

The Department of Revenue administers these taxes. Following are basic descriptions of these taxes and how to report them. This is general information only. For explanations on specific laws and how they apply to your business, refer to Washington rules and laws on our web site, dor.wa.gov.

Business & Occupation (B&O) Tax

The B&O tax applies to anyone engaged in business activities in Washington. It is a gross receipts tax, meaning there are no deductions for labor, materials, or any other cost of doing business. Washington's B&O tax is relatively low. It is computed by multiplying the tax rate by the amount of gross receipts, gross volume of sales, or other taxable amounts.

The classification and rate of the B&O tax are based on the type of business activity. A business may perform more than one type of activity. For example, a floor covering store may sell carpet directly to homeowners for their use (retail sales) and may also sell carpet and tile to construction companies that resell the items to home buyers (wholesale transactions). In such cases, the business must report and pay B&O tax under the appropriate classifications - retailing and wholesaling.

The most common classifications of the B&O tax are:

Retailing - Selling or renting goods and certain services to anyone who will not resell the goods and services to others. Retailing generally includes services performed on property, such as construction and repair. It also includes lodging, landscape maintenance, physical fitness, extended warranties, and many other services. Retailing does not include services provided by lawyers, doctors, accountants, beauticians, and janitors.

Contractors are encouraged to refer to the Construction Tax Guide for specific information on construction clean-up. The guide is available from our web site dor.wa.gov or by calling 1-800-647-7706.

Wholesaling - Selling goods and certain services to anyone who will resell them to others. If you are a wholesaler, you must get and keep a completed resale certificate from each buyer. (See page 2 for more on resale certificates.)

Manufacturing - Making articles, substances, or commodities in Washington State for the manufacturer's own use or for sale as tangible personal property.

Service and Other Activities - Services and activities not taxed under any other classification are taxed under the Service and Other Activities B&O classification. Sales commissions, interest on installment payments, and late charges are taxed under this classification. Business services such as lawyers, doctors, accountants, beauticians, and janitors report under this classification.

Exemptions

Although most business activities are subject to the B&O tax, there are a few major exceptions.

- Real estate sales and real estate rentals over 30 days are not subject to B&O tax. However, interest received on real estate contracts is taxable under the Service and Other Activities classification.
- Farming is not taxable. "Farming" means raising crops and livestock on one's own land for sale at wholesale. If a farmer sells a product at retail, that sale is taxable under the Retailing classification of the B&O tax.
- Fruit and vegetable processors who manufacture fresh fruit and vegetables by canning, freezing, processing, or dehydrating, and sell such products on a wholesale basis for transport out-of-state are exempt from B&O tax.

FAQ B&O Tax

I make very little profit on my sales of goods and services. Can I deduct the amounts paid for subcontract labor, materials, and supplies to arrive at my taxable receipts under the B&O tax?

No. The business and occupation tax is a tax on gross receipts. The tax "pyramids," in that each separately organized business must report its own gross receipts without any deduction for amounts paid to others, or for any other expenses. The B&O Tax is imposed without regard to profit - it applies even if the business makes no profit.

FAQ I provide a combination of product sales and services. Can I report all income under one classification?

No. Each source of income must be accounted for separately and reported under the classification that applies to each activity. Interest charged on late payments, for example, must be reported separately from the sale of products.

Where can I find a complete list of B&O tax classifications?

Go to our web site at dor.wa.gov or call 1-800-647-7706.

Public Utilities

Power, water, and gas companies, and carriers by air, water, rail, and motor are taxable under various classifications of the public utility tax, instead of the B&O tax.

If you have any questions about how you should report your taxes, please call 1-800-647-7706 or write to us for clarification.

Retail Sales Tax

Transactions subject to the Retailing B&O tax are generally also subject to the retail sales tax. Retail businesses owe the Retailing B&O tax even when their customer is not required to pay retail sales tax (for example, unprepared food products sold at a grocery store).

A business must collect sales tax on the selling price of an item unless they receive a resale or other exemption certificate from the buyer. In addition to tangible goods, many services are subject to the retail sales tax, such as:

- Improving or repairing real or personal property such as buildings, equipment, and automobiles
- Landscaping, including lawn and garden maintenance
- Amusement and recreation businesses

Unlike the B&O tax, the buyer, not the seller, pays the sales tax. As the seller, you are obligated to collect sales tax from the buyer and remit it to the Department of Revenue. The funds are considered to be held in trust for the state until you report and remit them with your tax return. The seller is liable to the Department of Revenue for sales tax due, whether it is collected from the buyer or not.

Businesses also pay retail sales tax on the purchase or rental price of items for their own use, such as supplies or equipment, which will not be resold or used as an ingredient in producing a product for sale.

Similarly, when a business purchases retailing-type services for its own use, it must pay sales tax on the purchase price.

Sales tax rates vary depending on the location where the sale occurs. You can find local tax rates using the Tax Rate Look-up Tool on our web site dor.wa.gov.

Determine the location of the sale

Sales tax collection is based on the location where the customer receives the merchandise or service. Certain items such as motor vehicles, trailers, semi-trailers, aircraft, watercraft, modular homes, and manufactured and mobile homes are subject to sales tax based on the seller's location even if the seller delivers the items to customers. To ensure local governments receive the correct amount of tax money, retailers must code their sales accurately:

- **Goods and merchandise sales** are coded to the location where the customer receives them
- **Labor and services** are coded to where they are performed
- **Repair services** are coded to the location of the repair facility unless, the repaired item is delivered or shipped to the buyer, then the total charge, including shipping and handling, is coded to the buyer's address.
- **Goods delivered into Washington state** from outside are coded to the location where the customer receives the goods
- **Lease or rental** of tangible personal property depends on the following:
 - If a single payment is made and the person renting the equipment (lessee) picks up the equipment at the location of the business renting the equipment (lessor), then the lessor's location determines the code and local tax rate.
 - If a single payment is made but the equipment is delivered to the lessee at another location, the code is determined by the location where the lessee receives the equipment.
 - If the item is leased for a length of time and periodic payments are made, the first payment is coded to the location where the lessee receives the equipment, normally the lessor's business location. All subsequent payments are coded to the location where the equipment is primarily used by the lessee.

More information and tools, visit our web site at destinationtax.dor.wa.gov. For answers to specific questions about sales tax collection call the Telephone Information Center at (800) 647-7706.

Washington Administrative Code (WAC) 458-20-145 provides more information on determining local tax rates.

FAQ Retail Sales Tax

What is the difference between a service that is taxed as a retail sale and one that is not?

Services performed on personal and real property are usually taxed under the Retailing classification of the B&O tax and are also subject to the retail sales tax. This includes car repair, house painting, landscape maintenance, and similar activities. Both labor and materials are subject to the B&O tax and retail sales tax.

Other services taxable under the Retailing classification of the B&O tax and subject to the retail sales tax include automobile parking and towing, credit bureau services, lodging, physical fitness services, and others. Personal services including, but not limited to, those provided by lawyers, doctors, accountants, beauticians, and janitors are not subject to the retail sales tax. These services are reported under the Service and Other Activities classification of the B&O tax.

Is sales tax collected if goods purchased within Washington are delivered outside of this state?

No. The property must be shipped directly to an out-of-state location.

Should I collect sales tax from all non-residents?

It depends. The law allows a sales tax exemption on sales to certain non-residents. The exemption applies to sales of goods for use outside of Washington and is only available to residents of states or provinces that impose a retail sales tax of less than three percent.

Sales of meals, lodging, or other retail services consumed in Washington do not qualify for exemption. Sellers are not required to honor the tax exemption. Those that do must verify and document the customer's out-of-state address by checking one piece of photo identification. A customer may also complete a Buyers' Retail Sales Tax Exemption Certificate. The certificate is available on our web site.

Residents of the following states possessions and provinces of Canada may qualify for the non-resident exemption:

Alaska
Alberta
American Samoa
Colorado
Commonwealth of Northern Mariana Islands
Delaware
Guam
Montana
New Brunswick
Newfoundland and Labrador
New Hampshire
Northwest Territories
Nova Scotia
Nunavut
Oregon
Quebec
Virgin Islands
Yukon Territory
For more information, refer to Excise Tax Advisory 2014 available on our web site.

Other Taxes

Other specific taxes may be included in the retail sales tax rate depending on the nature and location of a sale. The following taxes apply to certain locations or business activities.

Classification	Rate
Regional Transit Authority Tax (RTA)	.004
King County Food and Beverage Tax	.005
Rental Car Tax	.059 – .097
Special Hotel/Motel Tax	.010 – .050
Convention/Trade Center Tax	.028 – .070

Use Tax

Use tax should be reported when you purchase, lease, or use a taxable item (product or service) without paying sales tax. Articles purchased for use in Washington are subject to either sales or use tax, but never both. Use tax is calculated based on the value of the item, which is normally the purchase price including freight and handling charges. State sales and use tax rates are the same. A key difference is that use tax is charged at the rate for the **location where you first use the item** in Washington. Sales tax is based on the rate for the **location where the sale takes place**.

Unless you make a purchase for resale, you will usually pay sales tax. However, situations occur when Washington sales tax may not be collected by the seller, including when taxable items are purchased from an out-of-state vendor, are acquired when an existing business is purchased, or when inventory is converted to consumer use. In these cases, use tax is due. Some other common examples are:

- Business supplies acquired through catalog merchandising.
- Internet purchases of office equipment, canned software, or promotional items ("giveaways").
- Magazine subscriptions/publications purchased from publishers outside Washington.

A common misunderstanding is that purchases from vendors outside this state are not subject to tax. In fact, **any item acquired outside Washington for use within this state is subject to Washington's use tax**. You can use the amount of sales or use tax paid in another state as a credit against the amount of use tax due in Washington. Use tax should be reported on your excise tax return.

If the value of services cannot be shown, then the fair market value of the equipment you acquired should be used to determine the use tax due.

I hired some casual labor to paint my office. I supplied the paint. Do I owe use tax on the painting labor?

Yes. All amounts paid for improvements to real or personal property are reportable as use tax if you did not pay sales tax. This includes amounts paid for labor only.

Resale Certificates

A resale certificate is a written statement signed by a buyer that says a purchase is for resale in the regular course of business without intervening use by the buyer. By signing the certificate, the buyer also acknowledges that they may be assessed a 50 percent penalty of sales tax due for misusing the certificate. The buyer must indicate what kind of business he or she is in, and the kind of goods or services that are being purchased. When a seller accepts a resale certificate, the seller is relieved of the responsibility for collecting sales tax.

For example, a grocery store may present a resale certificate to a paper products wholesaler when purchasing paper towels for resale. The wholesaler would not charge sales tax on the purchase. When the grocery store sells the paper towels to its customers, it will collect sales tax. The grocery store should not present resale certificates to vendors for items that it consumes, such as shelving, signs, and cash registers. The store must pay sales tax on all of these items.

Income from sales using resale certificates should be reported under the Wholesaling classification of the B&O tax. Sellers should keep buyers' completed resale certificates in their business records for five years.

You can download a resale certificate from our web site at dor.wa.gov.

Effective January 2010, resale certificates will be replaced with a reseller permit issued by the Department. To learn more go to <http://dor.wa.gov/resellerpermit/>

FAQ

Use Tax

I own an auto repair shop and I purchased some used equipment from another business. Do I owe use tax?

Yes. If the seller did not collect retail sales tax from you, you should report use tax on your next excise tax return.

I traded (bartered) my services in exchange for some new equipment. I paid no money for the new equipment. I did not pay any sales tax. Do I owe use tax?

Yes. Use tax is due on the equipment, based on the value of the services provided.

CHAPTER 2

Ways to File Your Tax Return

Electronic Filing (E-file)

Electronic filing is the preferred method for filing your tax return. It is a free and secure service that lets you prepare and file your excise tax return electronically any time of the day, from anywhere with an Internet connection.

E-file allows you to:

- Customize your tax return to view only the lines you need.
- Upload data from your accounting software or spreadsheets.
- Accurately calculate taxes due and flag potential errors.
- Choose from several payment methods: Electronic Funds Transfer (EFT), E-check, paper check or VISA, MasterCard, American Express and Discover credit cards.
- Save postage and the chance of your return getting lost or delayed in the mail.
- File your return early and choose the date you want your payment withdrawn (with EFT).

E-file B&O Classifications and Credits

Certain B&O tax classifications must be filed electronically. These classifications are:

- Manufacturing of aluminum
- Wholesaling of aluminum
- Manufacturing of solar energy
- Wholesaling of solar energy
- Manufacturing of commercial airplanes or components
- Wholesaling of commercial airplanes or components
- Retailing by manufacturers of commercial airplanes or components
- Pari-mutuel wagering
- Radioactive waste disposal
- Extracting timber
- Manufacturing timber
- Wholesaling timber
- Federal aviation repair

Additionally, the following B&O tax credit programs must be filed electronically:

- Main Street Credit
- Aluminum Smelter Credit (B&O, retail, and public utilities tax credits)
- Aerospace Credit (property tax B&O credit, and pre-production spending B&O credit)
- High-technology Credit
- Motion Picture Industry Credit

Paper Returns

Paper excise tax returns and filing instructions are based on your type of business activity. Newly registered businesses are assigned a reporting frequency and excise tax return type based on information provided on the Master Application. Paper returns are sent to new taxpayers depending on reporting frequency. All excise tax returns, instructions, and addenda can also be found on our web site.

Reporting No Business Activity

Your business must file a tax return each reporting period even if you did not conduct business or receive income. There are three ways to report no business activity:

- 1. Phone:** Call our 24-hour automated system at 1-800-647-7706.

At the greeting, enter “111” to start the automated process.

Enter your tax registration number and follow the instructions.
 - 2. E-file:** Go to our web site at dor.wa.gov and login to your account. If you are not registered to file electronically follow the instructions to create a new E-file account.
 - 3. Mail:** On your paper excise tax return, fill in the “No Business Activity” box.

Please sign and date the return and include a daytime phone number.

Make a copy for your files and mail the original return in the self-addressed envelope provided.
NOTE: If you are registered to E-file, you will not receive a paper return. If you have an E-file account, follow the instructions above to report “No Business Activity” through E-file or by phone.
- For help or for more information call 1-800-647-7706 or your local Revenue office. Please have your UBI/ tax registration number available.

CHAPTER 3

Tax Reporting Information

The following are some important facts you should know about filing your tax return.

Reporting Frequency

When you fill out a Master Application to register your business in Washington, you describe your business activities and estimate your annual income, before expenses. Your estimated annual gross income is then used to estimate your annual tax liability (amount you will owe). Your reporting frequency is assigned based on your annual tax liability and type of business. Our goal is to make filing and processing as efficient as possible for you and the Department of Revenue.

Guidelines used to assign reporting frequency are as follows:

Frequency	Estimated Tax Liability
Monthly	More than \$4,800 per year
Quarterly	Between \$1,050 and \$4,800 per year
Annually	Less than \$1,050 per year

Due Dates

The due date for your excise tax return corresponds to your assigned reporting frequency.

Monthly

The return is due by the **25th day of the month** following the close of the reporting month. For example, the January return is due by February 25.

NOTE: Monthly filers must file and pay taxes electronically.

Quarterly

The return is due by the **last day of the month** following the close of the quarter. For example, the Quarter 1 return (January, February, March) is due by April 30.

Annual

The return is due by **January 31** of the following year. For example, the 2006 return is due by January 31, 2007.

If your due date falls on a weekend or legal holiday, the next business day is the due date for the return. To avoid penalties, don't file late.

For paper filers, excise tax returns are mailed approximately four to six weeks before the due date. Your due date is printed on the excise tax return. If you file by mail, the envelope must be postmarked on or before the due date, so be sure to mail your return in time to avoid late filing penalties.

Accounting Methods

Unless you keep your books on a cash basis, taxes must be paid on all sales made during the reporting period, even if you have not received payment.

Rounding

You may round off to the nearest whole dollar by dropping amounts less than 50 cents and rounding up amounts of 50 cents or more. For example, if your gross sales for the reporting period total \$12,123.48, enter \$12,123.00 on the tax return. If they total \$23,334.50, enter \$23,335.00. Round all amounts, even the calculated tax due.

FAQ

Reporting

What are the types of accounting methods?

Cash basis reporting – Gross income is reported on the excise tax return in the period you receive the payment, regardless of when you deliver the goods or services.

Accrual basis reporting – Gross income is reported on the excise tax return in the period in which you deliver the goods or services, regardless of when you receive the payment. Note to contractors: Report your income based on the terms of the contract for when you become entitled to payment. See WAC 458-20-197 and WAC 458-20-199 for complete details.

“Active Non-reporting” Status

Some taxpayers are eligible for “Active Non-reporting” status and do not have to file tax returns. To be eligible for Active Non-reporting status, you must meet **all** of the following requirements:

- Your business activity does not require the collection of retail sales tax.
- Your annual gross proceeds of sales, gross income, or value of products is less than \$28,000 for all B&O tax and/or \$24,000 for public utility tax classifications.
- Your business owes no other tax or fee to the Department of Revenue.

Even if you don't owe taxes, it is your responsibility to maintain proper business records. You must notify us if your business changes and you no longer meet the requirements for Active Non-reporting status. As soon as this happens, call our Business Registration section at (360) 902-7180, or your local office, or the Telephone Information Center at 1-800-647-7706 to update your reporting status. Your account will be assigned a reporting frequency and excise tax returns will be supplied to you. Failure to notify us may result in late filing and payment, causing penalties and interest to be assessed.

Correcting a Previously Filed Return

If you find that you have been reporting taxes incorrectly, you can file amended returns or schedules to correct the error. If additional taxes are due, and the original return was late, the amount should be remitted along with the returns, including any applicable interest and penalties. If taxes have been overpaid, a refund will be issued or a credit will be applied against your future taxes. To amend your return, take the following steps:

1. Make or print a copy of the return you need to correct.
2. At the top, write "Amended Return" in large letters.
3. Draw a single line through any incorrect information and write the correct information on the side or above. (Please use black ink.)
4. Recalculate your "Totals."
5. Attach a cover letter explaining why you are submitting an amended return, with a telephone number where you can be reached during business hours.
6. Mail the amended return and cover letter to:

Taxpayer Account Administration
Washington State Department of Revenue
PO Box 47476
Olympia, WA 98504-7476

NOTE: The Department can only honor refunds dating back four calendar years prior to the year in which the refund request is made. (See WAC 458-20-229.)

FAQ Tax Filing

Do I need to file on time if I didn't receive my excise tax return?

Yes. Not receiving your return does not relieve you from reporting and paying your taxes by the due date. You can use our web site to file electronically using our E-file system or download copies of the excise tax returns. You can also pick up tax returns from your local Revenue office or have copies mailed to you by calling 1-800-647-7706.

What should I do if I don't owe any taxes?

If you are assigned a reporting frequency, you must file a return. If you do not owe taxes because you did not conduct any business, refer to "Reporting No Business Activity" on page 5.

If you have been assigned an Active Non-reporting status, you do not need to file a return.

How do I file amended returns for multiple periods?

There are two ways to file amended returns. For either way, please attach a letter explaining the changes made.

1. When amending multiple periods, you can use a spreadsheet listing each period and the correction to each period.

OR

2. Photocopy each incorrect return. Write "Amended Return" across the top, make all the necessary changes and recalculate your tax due.

What should I include in my cover letter with my amended return?

Clearly note in a title or subject line that you are amending a return. Date the letter and indicate the period of the return, your business name and Tax Registration Number/UBI number and daytime contact information. Here is sample text for the body of your cover letter:

"We have submitted an amended return for the January 2003 period. We discovered that our retailing and retail sales tax gross figures were overstated by \$3,000 because we incorrectly included some December 2002 figures with our current month's figures.

Please send a refund check to us for overpayment. If you have any questions, we can be reached at (800) 647-7706."

What if I can't file or pay on time?

Contact your local Department of Revenue office right away. There is a penalty for late payments. The penalties assessed on late return payments are as follows:

- 5 percent after the due date until the last day of the month following the due date.
- 15 percent after the last day of the month following the due date.
- 25 percent after the last day of the second month following the due date and anything thereafter.
- 5 percent additional penalty applies to all assessments for underpaid taxes.

CHAPTER 4

Account Changes

Reporting Name Changes and Other Changes

Please report any account changes by using our web site at dor.wa.gov and login to My Account, if you have one. You may also call 1-800-647-7706.

If your **mailing address, business location, or business activity changes**, contact us immediately to ensure your return is mailed to the proper address and that your account information is correct.

If your **business ownership changes**, you must contact us. A change in ownership or legal organization, such as from one sole proprietor to another, from sole proprietor to a partnership, a change from proprietor to a corporation, or a merger, requires a new registration. You must close your current account and complete a Master Application form to apply for a new business license, visit department of Licensing at dol.wa.gov.

If your **trade name or corporate business name changes**, you must notify us. For trade name changes, complete a Master Application form. A new business license will be mailed to you. Corporate name changes should be filed through the Secretary of State's office at secstate.wa.gov.

If you **sell or go out of business**, complete a final excise tax return and pay all taxes due within 10 days of the closing date. Note the date of closure and new owner's name on your final excise tax return. The new business owner must apply for a new license in their name.

If you **add business locations**, complete a Master Application form. Indicate whether the new location should be consolidated with your existing account or if a separate registration number should be issued. A separate business license must be clearly displayed at each location.

Changing From a Sole Proprietorship to a Corporation

Changing the structure of a business to a corporation requires that you close your existing account and complete a new Master Application. You must also file Articles of Incorporation with the Office of the Secretary of State. You can get more detailed information at business.wa.gov.

If you need to file a Master Application, visit the department of Licensing web site dol.wa.gov.

CHAPTER 5

Recordkeeping

Keeping accurate and complete records makes the job easier when it's time to fill out excise tax returns and other reports. It also helps us correctly determine your tax liabilities during an audit of business income, purchases, exemptions, and deductions. We may use the records to determine if you reported and paid your taxes correctly.

Keep your business records for five years. Audits usually cover the past four calendar years, plus the current year through the end of the most recent quarter. This includes both paper and electronic records.

In general, records supporting the following are to be kept, preserved, and presented upon request of the Department of Revenue:

- The amount of gross receipts and sales from all sources, including barter or exchange transactions.
- The amount of all deductions, exemptions, or credits claimed through supporting documentation.

The records may include general ledgers and sales journals, plus all bills, invoices, cash register tapes or other documents or original entries supporting the books of account entries. The records should include all federal and state tax returns, reports, and all schedules or work papers used in preparing your tax reports or returns.

FAQ

Recordkeeping

Am I required to keep paper copies of my electronic information?

Not necessarily. All records must be kept for a period of five years, including electronic records. You may be asked to provide paper copies during an audit. We can generally verify your reported income and deductions through the use of electronic files.

What books and records should I keep?

Businesses should keep the following books and records:

- Washington State excise tax returns and work papers
- Federal income tax returns for the business
- Summary accounting records and source journals, such as the check register, general ledger, sales journal, general journal, cash receipts journal, and any other records you use to record income and expenses
- Sales invoices
- Purchase invoices (accounts payable, receipts)
- Depreciation schedules listing all assets acquired or disposed of during the audit period along with purchase or sales invoices for those assets
- Resale certificates for any wholesale sales
- Supporting documentation for all deductions and exemptions

Is it sufficient to keep only summary records?

No. All original documents must be kept to support the summary records.

What if my state and federal returns don't match?

There may be some legitimate differences. All differences should be reconciled and maintained for your business records.

Audit Information

The Audit Process

As a registered business, you may be selected for an audit. Audits are a routine procedure used to determine whether state excise taxes have been reported and paid correctly. The majority of businesses that we audit are chosen at random using statistical methods.

In general, your records will be reviewed to verify proper tax reporting. You will also receive helpful instructions and information on how to fill out tax returns in the future. We are committed to working with you in a professional and cooperative manner.

An audit of your business activities will cover several major areas, including:

- **Gross income:** verification of proper amounts and classifications reported on the return.
- **Deductions, credits, and exemptions:** verification of proper amounts, classifications, and documentation.
- **Purchases:** verification of retail sales or use tax paid on capital assets, consumable supplies, or articles manufactured for your own use.

Audit procedures and programs may include:

- Obtaining electronic files of your accounting records for the audit period.
- Random, non-statistical sampling of specific audit areas.
- Computer-assisted audits using a statistical sampling technique. These are primarily used for large businesses.

FAQ

Audits

What should I expect during an audit?

An audit by the Department of Revenue will normally cover the four preceding calendar years, plus the current year. The auditor will review taxes, deductions, and exemptions reported on your excise tax return.

Will the results of the audit be fully explained to me?

Yes. The auditor will discuss both the procedures used and the differences identified. You will have an opportunity to review the results and discuss them with the auditor before any assessment is issued.

CHAPTER 7

Rights and Responsibilities

Whether you are a business owner, homeowner, nonprofit organization, or individual consumer, you are also a Washington State taxpayer with specific rights and responsibilities. As a taxpayer, it is important to understand the laws regarding these rights and responsibilities.

By understanding your responsibilities, you can better comply with your tax obligations and avoid mistakes. By understanding your rights, you will be able to ensure that they are upheld and gain a better awareness of the many services we offer.

In 1991, the Taxpayer Rights and Responsibilities law was passed. It provides the basic principles that form the foundation of our relationship with taxpayers – voluntary compliance, fairness, and uniform application. Our employees are committed to treating you with fairness and upholding your rights.

Taxpayer Rights

The Taxpayer Rights and Responsibilities law provides taxpayers with the right to many services and protections. These rights range from the most basic, such as the right to fair and courteous treatment, to specific actions you can take to resolve a tax issue.

You have the right to a simple and prompt administrative process for tax refunds and credits.

If you believe you have overpaid your taxes, you may request a refund or credit against your future tax liabilities. As long as the taxes were paid within four calendar years prior to your request and the overpayment is verified, we will issue a refund or credit. If you feel your request has been incorrectly denied and cannot resolve the disagreement, you may file an appeal. Refer to WAC 458-20-100 for more information on the appeals process or visit our web site.

You have the right to timely, fair and equitable treatment with dignity and respect.

The Department of Revenue is a customer-focused organization. You can expect to receive courteous and professional treatment from our staff. You should contact a supervisor or the Taxpayer Advocate if you feel you have not received proper treatment.

You have the right to accurate written information on reporting instructions, appeal procedures, refund claims and reasons for assessment.

We strive to make tax information readily available and easy to understand. We publish important tax decisions, fact sheets on various taxes, the quarterly Tax Facts newsletter, special notices, legislative updates, administrative rules and excise tax advisories.

You have the right to public hearings on proposed rules.

When proposing new rules or amendments, the Department of Revenue holds hearings that encourage public input. Interested citizens may offer their comments by mail, fax or telephone.

You have the right to review and appeal assessments, business registration revocations and adverse rulings.

You may ask for an independent review if we make an unfavorable decision. For example, if an audit or other review of your records results in an assessment or decision with which you do not agree, you have the right to ask for a review of that assessment or decision. You may appeal any action of the Department of Revenue. This includes letter rulings and written reporting instructions, in addition to assessments for additional taxes and revocation notices.

A review is started by filing a petition with our Appeals Division. Petitions for appeal must be sent to the Appeals Division within 30 days of the date the decision was made. Contact:

Department of Revenue
Appeals Division
PO Box 47460
Olympia, WA 98504-7460
(360) 570-6140

If a filed tax warrant remains unpaid after 30 days, we may hold an administrative hearing to revoke your business certificate of registration or master license, making it illegal for you to conduct business activities in Washington. If your registration is revoked, you may ask the Appeals Division to review that decision.

You also have the right to appeal an unfavorable ruling by the Appeals Division to the Washington State Board of Tax Appeals. These requests should be sent to:

Washington State Board of Tax Appeals
PO Box 40915
910 5th Ave SE
Olympia, WA 98504-0915
(360) 753-5446

You have the right to remedies when statutes and rules are found to be unconstitutional.

The Department of Revenue must administer the tax laws as they are written by the Legislature. However, if the courts invalidate a law, we will promptly comply and administer any remedies, including tax refunds and credits.

You have the right to confidentiality of financial and business information.

We will not release the information contained on your tax returns. By law, only the following information about your business may be released to the public:

- Name and address
- Business entity type
- Unified Business Identifier (UBI) number/Tax Registration Number
- Standard Industrial Classification (SIC) code
- North American Industry Classification Code System (NAICS)
- Opening and closing dates

The law does allow the Department of Revenue to share confidential information with authorized federal and state agencies such as the Internal Revenue Service (IRS).

Answers to General Tax Questions

For general tax questions, you can e-mail communications@dor.wa.gov or call 1-800-647-7706.

If you have a complex tax question and would like a binding letter ruling, see “Binding Letter Rulings” on page 12.

Taxpayer Rights Advocate

If you feel your rights have been violated, and you cannot solve the problem through routine channels, contact the Taxpayer Rights Advocate.

Taxpayer Rights Advocate
Department of Revenue
Taxpayer Services Division
PO Box 47478
Olympia, WA 98504-7478
(360) 705-6714
<http://dor.wa.gov>

Taxpayer Responsibilities

The Department of Revenue can better serve you when you have a basic understanding of your responsibilities as someone doing business in Washington. As a taxpayer in our state, you have the responsibility to:

- Register your business with the Department of Revenue.
- Know your tax reporting obligations and get instructions when you are uncertain.
- Keep accurate and complete business records.
- File returns and pay taxes on time.
- Make sure the information on your tax returns is accurate.
- Substantiate claims for refund.
- Notify the Department of Revenue and pay taxes promptly when closing a business.

CHAPTER 8

Service Directory

The Department of Revenue offers many services to help make reporting your taxes convenient. The following list contains a sampling of these services.

Web site – dor.wa.gov

Our web site offers a wide variety of information and resources for your business, including:

Electronic Filing (E-file). File and pay taxes via the Internet.

Business Information Update (My Account).

You can update your account online in real time if your business has moved, closed, or changed activities.

Local Offices. Find telephone numbers, office hours, and directions to a local office near you.

Tax Rate Lookup Tool (GIS). Find the local code and tax rate for specific locations by map or address search.

Business Records Database (BRD). Look up public information on businesses registered in Washington State. Public information includes business name, open and close dates, Standard Industrial Classification (SIC) code, North American Industry Classification Code System (NAICS), UBI/Tax Registration Number, and owner type. This information is available for non-commercial purposes only.

Publications and Forms. Find our tax guides, fact sheets, Special Notices, reports, news releases, and forms.

Report Fraud. Report Washington State tax and license fraud using our online form. You may also link to other state agencies for information on fraud cases and consumer protection.

Research Statistics. Find research publications, data on tax collections, tax-related statistics on business activity by industry and geographical area, and other statistical information about the state's tax structure.

Laws and Rules (Taxpedia). Search our online database for Department of Revenue rules and laws. Also research tax-related laws, rules, advisories, administrative decisions, and court cases through Taxpedia.

Secure Messaging. Exchange confidential information with our staff and feel safe that your message will not be intercepted. You can also receive binding tax rulings through this secure electronic messaging service.

Make suggestions to improve Department of Revenue web services. We welcome your comments and ideas. Go to our web site at dor.wa.gov.

Telephone and One-on-one Assistance

Get answers to questions and help with registering your business and completing tax returns from our Telephone Information Center at 1-800-647-7706. You can also visit your local Department of Revenue office. The local office locations and phone numbers are listed on the back of this publication.

Tax Express. Get answers to your most common tax questions 24 hours a day, seven days a week, by calling the Tax Express prerecorded information system at 1-800-334-8969.

Fast Fax. Get the most requested forms and publications 24 hours a day, seven days a week. Our Fast Fax feature lets you select from about 100 forms, publications, and administrative rules, and have them sent directly to your fax machine. To use the Fast Fax system, dial 1-800-647-7706.

Tax Consultation Visits

At your request, a Department of Revenue staff member will meet with you to explain how state taxes apply to your specific business activities. This service is strictly voluntary and takes about two hours. If you are interested in a tax consultation visit, please call the Telephone Information Center at 1-800-647-7706 or contact your local office.

Binding Letter Rulings

When you have a complex tax question, you can request a written letter ruling from the Department of Revenue. To get a letter ruling, you need to write to us. Identify your business and include all pertinent facts surrounding the issue. Mail or fax your request to:

Taxpayer Information & Education
Department of Revenue
PO Box 47478
Olympia, WA 98504-7478
Fax: (360) 705-6655

United States Internal Revenue Service

Information: 1-800-829-1040 or 1-800-829-4933
Forms: 1-800-829-3676
Fax-on-demand: 1-703-368-9694
Teletax 24-hour information: 1-800-829-4477

Online Business Resources

"A study found 90 percent of businesses failures were due to the owners' lack of skills and/or knowledge. On the other hand, the study found 90 percent of small businesses getting assistance from a Small Business Development Center or other source of expert assistance were still in business after five years."

Dun and Bradstreet study

Simplify your life!

Find everything you need through one web site. Business.wa.gov is the state's online business service center. Here are some of the helpful features you'll find in this easy-to-use website:

Step-by-step instructions and pop-ups help you navigate the online guide for starting a new business without getting lost or "dead-ending" on other web sites.

Web-based "interview" helps you determine if you need to register your business with the state, and guides you to other start-up requirements.

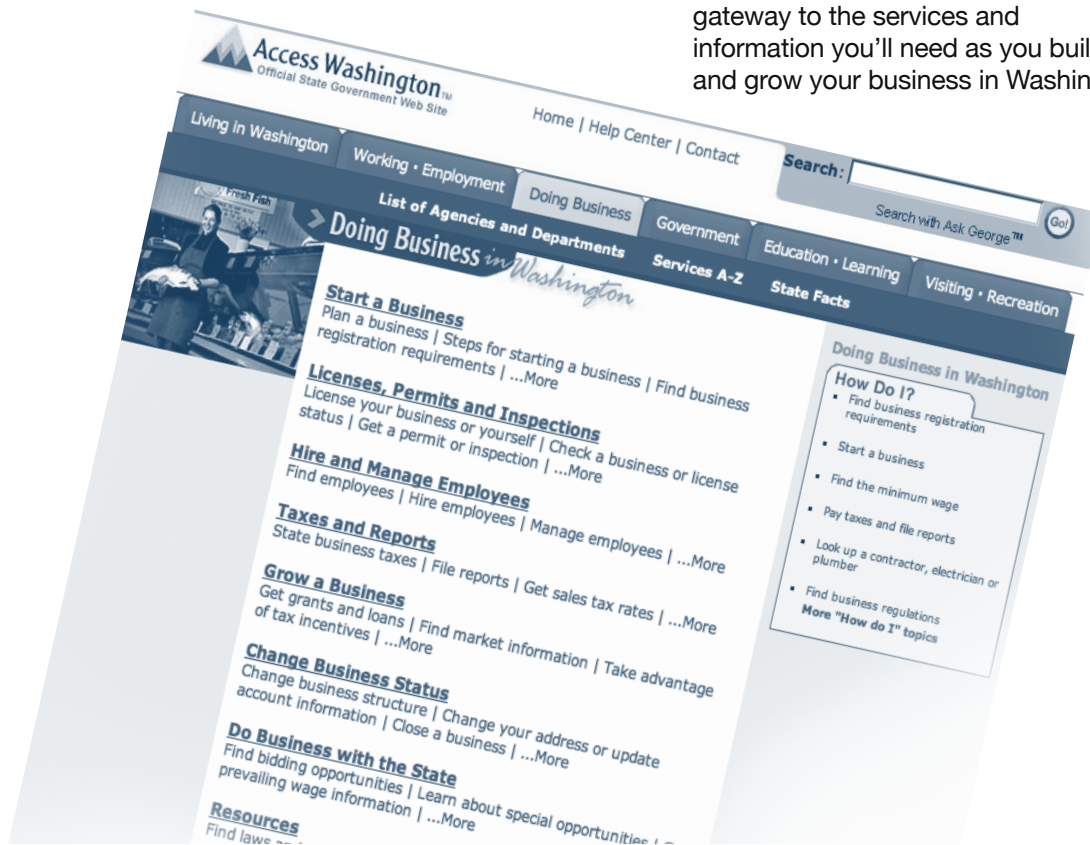
Small business resources with information on business planning, financial information, regulatory information, and the basics for running a small business.

Online Business Licensing Guide gathers information on your business activities and locations where you will operate.

A personalized, printable "Guide Sheet" is produced with a business summary, comprehensive requirements, contact information, and links for:

- Specific city and county licensing and taxation requirements
- Master Business Application and employer insurance information
- Other pertinent state and federal regulatory information
- Required city and state licensing forms

Visit the web site business.wa.gov and bookmark it today! It's your single gateway to the services and information you'll need as you build and grow your business in Washington.



Attend a Free Tax Workshop

These workshops help you understand Washington's tax structure. The workshop is free and you will receive a helpful workbook and reference guide to Department of Revenue rules and regulations. Workshops take place in cities across the state. Current schedule and registration information is on our web site at **dor.wa.gov**.

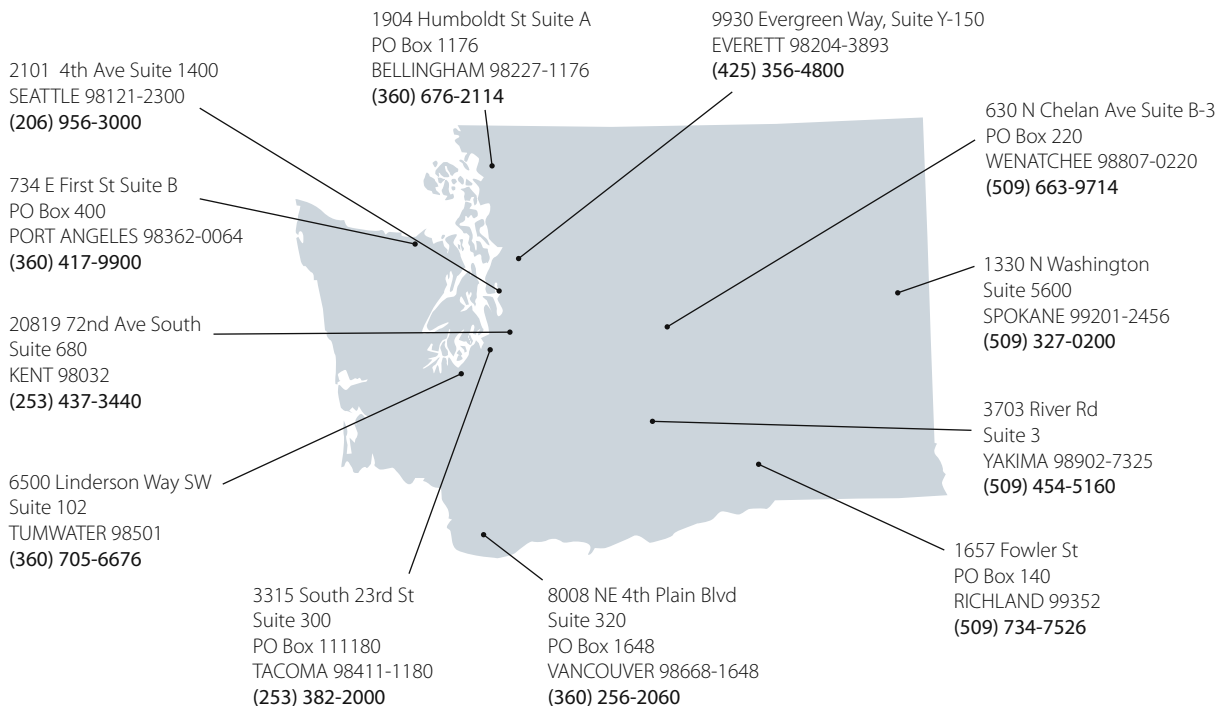
A short video of the workshop is also available on our web site if you cannot attend a session in person.

Department of Revenue Taxpayer Assistance

Visit our web site at **dor.wa.gov**

Telephone Information Center 1-800-647-7706

Local Office Locations



To inquire about the availability of this publication in an alternate format for the visually impaired, please call (360) 705-6715.

Teletype (TTY) users please call 1-800-451-7985.

Prepared by the Taxpayer Services Division



Printed on recycled paper